THE HOMEBUYER'S MORTGAGE GUIDE

Everything You Need to Know Before, During & After the Mortgage Process

First-Time Buyer or Experienced Homeowner

Western North Carolina Edition

Janey Cope
Producing Sales Manager
NMLS #: 78978
(828) 450-0046
1441 Patton Ave.
Asheville, NC 28801
UnitedFCU.com/Janey-Cope

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Section 01 — Mortgage Fundamentals

A mortgage is a loan secured by real property. You borrow money from a lender to purchase a home, and in exchange, the lender holds a lien on the property until the loan is repaid. If you stop making payments, the lender has the legal right to foreclose — taking ownership of the home to recover the debt.

Understanding how a mortgage works at its core is the foundation for every other decision you will make in this process.

How Your Payment Breaks Down (PITI)

PRINCIPAL	INTEREST	TAXES	INSURANCE
P	**I**	**T**	**I**
Repays what you borrowed. Grows as a share of payment over time.	Cost of borrowing. Largest in early years; shrinks with each payment.	Property taxes held in escrow, paid to local government annually.	Homeowners insurance + PMI if down payment is under 20%.

Amortization: How Your Loan Pays Off

Most mortgages are fully amortizing, meaning each payment is structured so the loan reaches a zero balance at the end of the term. In the early years, the vast majority of your payment goes toward interest. Over time, more goes toward principal. This is why:

- Extra payments made early in a loan have a dramatically larger impact on reducing total interest paid.
- The equity you build in the first few years is slow.
- Refinancing late in a loan's life can restart this amortization cycle, which is not always advantageous.

> **Pro Tip:**
> On a 30-year $350,000 mortgage at 7%, your very first payment applies roughly $485 to principal and $2,042 to interest. By year 15, that ratio flips significantly — knowing this helps you make smarter payoff decisions.

Loan Term: 15 vs. 30 Years

30-Year Fixed
- Lower monthly payment
- More interest paid over loan life
- More monthly cash flow flexibility
- Most popular mortgage in the U.S.

15-Year Fixed
- Higher monthly payment
- Significantly less total interest
- Lower interest rate typically offered
- Build equity much faster

Section 02 — Credit Scores & Reports

Your credit score is one of the most important factors a lender evaluates. It tells them how reliably you have repaid debt in the past — and predicts how likely you are to repay them. For mortgage purposes, lenders typically pull all three bureau scores (Equifax, Experian, TransUnion) and use the middle score for qualifying.

What Your Score Means for Mortgage Approval

Score Range	Rating	Implications
800–850	Exceptional	Qualifies for the very best rates; extremely low risk profile
740–799	Very Good	Excellent rates; strong approval odds across all loan types
670–739	Good	Good rates; qualifies for most conventional programs
580–669	Fair	FHA eligible; higher rates; may need compensating factors
Below 580	Poor	Very limited options; 10% down FHA minimum; specialty programs only

What Makes Up Your FICO Score

PAYMENT HISTORY	AMOUNTS OWED	LENGTH OF HISTORY	NEW CREDIT	CREDIT MIX
35%	**30%**	**15%**	**10%**	**10%**
Single biggest factor. One 30-day late can drop score 60-100 pts.	Credit utilization ratio. Keep revolving balances below 30%.	Older accounts help. Do not close your oldest cards.	Hard inquiries lower score temporarily. Avoid new accounts before applying.	Having both revolving and installment credit helps modestly.

Minimum Scores by Loan Type

Loan Type	Min. Score	Key Notes
Conventional	620	Best rates need 740+. PMI required with less than 20% down.
FHA	580 (3.5% down)	500-579 with 10% down. More flexible guidelines overall.
VA	No official minimum	Most lenders use 580-620. No PMI ever required.
USDA	640 typical	Rural areas only. No down payment required. Income limits apply.
Jumbo	700-720+	Stricter across the board. Lower DTI required. More reserves needed.

How to Improve Your Score Before Applying

- **Pay every bill on time** — even one 30-day late payment can drop your score 60-100 points

- **Pay down credit card balances** to below 10% utilization for maximum score benefit
- **Do not open any new credit accounts** in the 6-12 months before you apply
- **Do not close old accounts** — length of credit history matters significantly
- **Dispute inaccuracies** on your credit report via AnnualCreditReport.com (free)
- **Become an authorized user** on a family member's long-standing, well-managed account
- **Avoid co-signing new debt** for others before your home purchase is complete

> **Important:**
> When shopping for a mortgage, multiple lender inquiries within a 14-45 day window are typically counted as one inquiry by FICO. Shop freely within that window without fear of score damage.

Section 03 — Down Payment & PMI

The down payment is the portion of the purchase price you pay upfront. The remainder becomes your loan amount. A larger down payment means lower monthly payments, less interest paid over time, and typically better loan terms — but it is not always the right move to put more down if it drains your savings.

Down Payment Options by Percentage

Down Payment	Loan Programs	PMI Required?
0%	VA and USDA loans only. Not widely available.	No
3%	Conventional (Fannie/Freddie programs). Must meet income/credit criteria.	Yes
3.5%	FHA minimum with 580+ score. Very accessible for first-time buyers.	Yes (often life of loan)
5-10%	Most common range. PMI applies. Solid qualification rates.	Yes
20%	Eliminates PMI. Best conventional rates. Significant cash required.	No
25%+	Best rates on Jumbo loans. Maximum lender confidence.	No

Private Mortgage Insurance (PMI) Explained

PMI protects the lender — not you — if you default. It is required on conventional loans when your down payment is less than 20%. The cost typically ranges from 0.5% to 1.5% of the loan annually, added to your monthly payment.

On a $350,000 loan, PMI might cost $145-$290/month. The good news: on conventional loans, PMI is automatically removed when your loan-to-value (LTV) reaches 78% — or you can request removal at 80% LTV. FHA mortgage insurance is different — it often lasts the life of the loan, which is one reason to refinance into conventional once you have 20% equity.

> **Gift Funds:**
> Down payments can often come from gifts from family members. Lenders require a gift letter confirming the money is not a loan. Guidelines vary by loan type — verify what is acceptable for your specific program before assuming gift funds will be allowed.

Down Payment Assistance Programs (North Carolina)

- **NC Home Advantage Mortgage** — offered by NCHFA, up to 3-5% DPA for eligible buyers
- **Federal Home Loan Bank grants** — ask your lender if they participate in AHP or similar programs
- **HUD-approved local programs** — many WNC counties offer assistance for first-time buyers

- **Employer assistance programs** — some large employers offer home buying benefits; check with HR
- **IRA withdrawal** — first-time buyers may withdraw up to $10,000 without penalty (taxes still apply)

Section 04 — Types of Mortgage Loans

Not all mortgages are the same. The right loan type depends on your credit profile, down payment, income, military status, property location, and purchase price. Here is a complete breakdown of every major loan type available today.

Conventional Loans

Conventional loans are not backed by any government agency. They conform to guidelines set by Fannie Mae and Freddie Mac. These are the most common mortgages for buyers with solid credit and documented income.

2025 Conforming Loan Limit: $806,500 in most areas (higher in high-cost counties). Loans above this threshold are Jumbo loans requiring stricter qualification.

Advantages

- No upfront mortgage insurance premium
- PMI removable at 80% LTV
- Broad range of eligible property types
- Flexible term options (10, 15, 20, 25, 30 yr)

Disadvantages

- Stricter credit requirements (620+ minimum)
- Higher rates for lower credit profiles
- More documentation typically required

FHA Loans

Backed by the Federal Housing Administration. Designed for buyers with lower credit scores or smaller down payments. Very popular with first-time buyers and those rebuilding credit.

- 3.5% minimum down payment with 580+ credit score
- 10% minimum down payment with 500-579 credit score
- Upfront MIP of 1.75% added to the loan balance at closing
- Annual MIP of 0.55-1.05% added to monthly payments; typically lasts life of loan

VA Loans

Backed by the Department of Veterans Affairs. Available to eligible active duty service members, veterans, and surviving spouses. One of the most powerful mortgage products in existence — no down payment required and no monthly PMI.

- No down payment required for eligible borrowers with full entitlement
- No monthly private mortgage insurance — ever
- One-time VA funding fee (1.25-3.3%; waived if receiving VA disability compensation)
- No official loan limit for borrowers with full entitlement
- Property must be the borrower's primary residence

USDA Loans

Backed by the U.S. Department of Agriculture. Requires the home to be in an eligible rural or suburban area — much of Western North Carolina qualifies. No down payment required, competitive interest rates, and low mortgage insurance costs. Income limits apply based on household size and location.

Jumbo Loans

Loans that exceed the conforming loan limits. Not backed by Fannie/Freddie — lenders keep these on their own books, so guidelines vary significantly. Typically require: 700-720+ credit score, 10-20% down, lower DTI, strong cash reserves after closing, and full income documentation.

Fixed vs. Adjustable Rate Mortgages

Type	How It Works	Best For
Fixed Rate (30yr)	Rate locked for the life of the loan. Payment never changes.	Long-term homeowners who value stability and predictability
5/1 ARM	Fixed for 5 years, then adjusts annually. Caps apply.	Buyers who plan to sell or refinance within 5-7 years
7/1 ARM	Fixed for 7 years, then adjusts. More stable than 5/1.	Buyers confident they will move before the 7-year mark
10/1 ARM	Fixed for 10 years, then adjusts annually.	Buyers in high-rate environment betting on future rates

ARM Caution:
Adjustable rate mortgages have caps — typically 2% per adjustment and 5-6% lifetime — but even capped increases can significantly raise your payment. Only use an ARM if you have a concrete exit plan before the adjustment period begins.

Section 05 — Interest Rates & APR

The interest rate is the cost of borrowing the principal. The APR (Annual Percentage Rate) is a broader measure that includes the interest rate plus fees and costs — it gives you a more accurate picture of the true cost of the loan. Always compare APR when evaluating lender offers side by side.

What Affects Your Rate

- **Credit score** — the most controllable factor. A 740+ score gets the best pricing tiers.
- **Loan-to-Value (LTV)** — lower LTV (more equity or down payment) equals a lower rate.
- **Loan type** — conventional vs FHA vs VA vs Jumbo all carry different pricing structures.
- **Loan term** — 15-year loans always carry lower rates than 30-year loans.
- **Property type** — condos, multi-family, and investment properties carry rate adjustments.
- **Macroeconomic conditions** — the 10-year Treasury yield and inflation are the primary drivers of mortgage rates.
- **Points paid** — you can buy down your rate by paying discount points at closing.

Discount Points: Should You Buy Down Your Rate?

One discount point = 1% of the loan amount, typically reducing your rate by about 0.25%. On a $400,000 loan, one point costs $4,000 and might reduce your rate from 7.25% to 7.00%.

To determine if it is worth it, calculate the break-even point: divide the cost of the points by your monthly savings. If you plan to own — and not refinance — past that break-even date, buying points makes mathematical sense. If you will sell or refinance before then, skip the points.

Rate Lock:
Once you are under contract, lock your rate quickly. Rate locks typically last 30-60 days. In a rising rate environment, locking protects you. In a falling rate environment, ask your lender about float-down options, which allow a one-time reduction if rates fall significantly.

The Real Cost of a Higher Rate

+0.5% HIGHER RATE ON $350K	+1.0% HIGHER RATE ON $350K	740 VS 680 SCORE IMPACT
$112/mo	**$224/mo**	**~0.5%**
More per month — over $40,000 extra paid over 30 years	More per month — over $80,000 extra paid over 30 years	Typical rate difference between good and very good credit tiers

Section 06 — How Lenders Qualify You

Lenders evaluate your application using a framework sometimes called the Four Cs: Capacity (income/DTI), Capital (assets/down payment), Collateral (property value), and Credit (score/history). Understanding each helps you anticipate what a lender needs and position yourself as the strongest possible applicant.

Debt-to-Income Ratio (DTI)

DTI is the most critical qualifying metric. It measures your total monthly debt payments as a percentage of your gross (pre-tax) monthly income. There are two types lenders evaluate:

Front-End DTI (Housing Ratio): New PITI payment divided by gross monthly income. Most lenders want this under 28-31%.

Back-End DTI (Total Debt Ratio): New PITI plus all other minimum monthly debt payments divided by gross monthly income. Most lenders allow 43-50% depending on loan type and compensating factors.

CONVENTIONAL MAX DTI	FHA MAX DTI	VA MAX DTI	USDA MAX DTI
45-50%	**57%**	**41%+**	**41-44%**
With strong credit and reserves; automated system approval dependent	With compensating factors and automated underwriting approval	Residual income test also required for VA approval	With strong compensating factors and documentation

Income Documentation Requirements

Employment Type	Documentation Required
W-2 Salaried	2 years W-2s, 30 days recent pay stubs, verification of employment
Self-Employed	2 years personal + business tax returns, YTD P&L, business bank statements, unless you've been self-employed for 5+ years
Hourly / Variable	2 years history, recent pay stubs, employer verification of typical hours
Commission / Bonus	2-year average used if variable; must have history of receiving the income
Rental Income	75% of gross rent typically counted; Schedule E from tax returns reviewed
Retirement / Social Security	Award letters, 1099s; may be grossed up by 25% if non-taxable
Part-Time / Second Job	2-year history of holding both jobs simultaneously required

Cash Reserves

Reserves are liquid assets left over after your down payment and closing costs. Lenders want to see you can weather a financial setback. Reserves are measured in months of PITI — for example, 2 months reserves means you have 2x your new monthly housing payment in accessible savings.

- Conventional loans may require 0-6 months depending on credit and LTV
- Jumbo loans often require 12+ months of reserves
- Investment properties typically require 6 months per financed property
- Strong reserves are a powerful compensating factor if other aspects of your file are borderline

> **Self-Employed Strategy:**
> If you are self-employed and write off significant business expenses, your taxable income shown on returns may be lower than your actual cash flow. Bank Statement loan programs (12-24 months of deposits used for qualifying) exist for exactly this scenario. Ask your loan officer about non-QM options if traditional income qualification does not tell your full story.

Section 07 — The Mortgage Process Step by Step

From first conversation to keys in hand, the mortgage process typically takes 30-60 days once you are under contract. Knowing what happens at each stage removes anxiety and helps you respond quickly when your lender requests documents.

Step 1: Pre-Qualification vs. Pre-Approval

Pre-qualification is a quick estimate based on self-reported information — useful for a ballpark, but not meaningful to sellers. Pre-approval involves a hard credit pull and full document review, giving you and sellers actual confidence in your buying power. Get pre-approved before you shop seriously.

Step 2: Home Shopping & Accepted Offer

Work with your real estate agent to find a home and write an offer. Your pre-approval letter accompanies the offer. Once the seller accepts, you are 'under contract' and the mortgage clock starts ticking.

Step 3: Formal Loan Application

Complete the Uniform Residential Loan Application (Form 1003). Provide all required documents. Within 3 business days you receive a Loan Estimate (LE) outlining all terms and estimated costs. Review it carefully.

Step 4: Rate Lock

Once under contract, lock your interest rate immediately. The lock protects you from market movement during processing. Standard locks are 30-45 days. Longer locks cost more. Never let your rate lock expire without communicating with your lender.

Step 5: Appraisal

A licensed appraiser evaluates the home's market value. The lender will only lend up to the appraised value. If the home appraises below purchase price, you must negotiate with the seller, cover the gap with more down payment, or exercise your appraisal contingency.

Step 6: Underwriting

The underwriter verifies every piece of your file against guidelines. They may issue a conditional approval — meaning the loan is approved pending specific items (a letter of explanation, updated documents, etc.). Respond quickly and completely to every condition.

Step 7: Clear to Close (CTC)

All conditions are satisfied. The underwriter gives final approval. Your lender prepares the Closing Disclosure (CD), which must be delivered at least 3 business days before closing. Review it carefully and compare every line to your original Loan Estimate.

Step 8: Closing Day

You sign the final documents — the Note, Deed of Trust, and many others. Bring a government-issued ID and your closing funds as a certified check or wire transfer. Once all documents are signed and funds are disbursed, the deed is recorded. You are a homeowner.

> **Critical Rule — Do Not Disrupt Your File:**
> After loan approval and before closing, do not change jobs, make large purchases, open new credit accounts, make large unexplained cash deposits, or transfer significant assets between accounts. Any of these can change your qualifying profile and delay or kill the loan at the last moment.

Section 08 — Closing Costs Explained

Closing costs are the fees and expenses paid to finalize your mortgage. They typically range from 2% to 5% of the loan amount and come in addition to your down payment. On a $350,000 purchase, plan for $7,000-$17,500 in closing costs. Planning for this figure prevents last-minute financial scrambling.

Common Closing Cost Line Items

Cost Item	Paid By	Typical Amount
Origination / Lender Fee	Buyer	$500-$1,500 or 0.5-1% of loan
Discount Points (optional)	Buyer	1% of loan per point purchased
Appraisal Fee	Buyer	$650-$1000, property inspection waiver changes cost to $0
Credit Report Fee	Buyer	$30-$75
Title Search	Buyer	$150-$400
Lender's Title Insurance	Buyer	$500-$1,000+
Owner's Title Insurance	Buyer (recommended)	$500-$1,500
Attorney / Settlement Fee	Buyer/Seller	$1000-$1,500
Recording Fees	Buyer	$100-150
Prepaid Interest	Buyer	Depends on closing date in the month
Homeowners Insurance (escrow)	Buyer	12-14 months collected upfront
Property Tax (escrow)	Buyer	2-6 months collected upfront
FHA Upfront MIP	Buyer (FHA only)	1.75% of loan amount
VA Funding Fee	Buyer (VA only)	1.25-3.3% (waived with VA disability)

Strategies to Reduce Closing Costs

- **Seller concessions:** negotiate for the seller to contribute toward closing costs (typically up to 3-6% depending on loan type and LTV)
- **Lender credits:** accept a slightly higher interest rate in exchange for a lender credit applied to closing costs — this is the 'no-cost' mortgage approach
- **Close at end of month:** reduces the number of prepaid interest days collected at closing
- **Shop attorney/settlement agent services:** the Loan Estimate identifies which services you are allowed to shop for independently
- **Finance eligible fees:** the VA funding fee and FHA MIP can both be rolled into the loan balance

Section 09 — First-Time Homebuyer Essentials

First-time buyers often face a learning curve that can feel overwhelming. This section addresses everything specifically relevant to you — from myths to debunk to programs designed with your situation in mind.

Common Myths Debunked

The Myth	The Reality
I need 20% down to buy	You can buy with as little as 0-3% down with the right loan program. 20% down payment eliminates Private Mortgage Insurance (PMI)
I need perfect credit	FHA allows 580+. Many programs work with mid-600s credit scores.
Renting is throwing money away	Renting makes financial sense in some situations. Buying also has real costs: maintenance, taxes, transaction fees.
I should max out my approval amount	Lenders qualify you for more than you may comfortably afford. Use your budget, not just the approval number.
Pre-qual equals pre-approval	Pre-qualification is unverified and estimates only. Pre-approval is verified and meaningful to sellers.
The rate is all that matters	APR, fees, PMI, and loan structure all factor into the true long-term cost of a mortgage.

True Cost of Homeownership Beyond PITI

- **Home maintenance:** budget 1-2% of home value annually for repairs, upkeep, and replacements
- **HOA dues:** can range from $50 to $1,000+ per month in some communities
- **Utilities:** may be higher than renting depending on the size of the space and age of the appliances
- **Lawn care and landscaping:** regular maintenance of grass, weeds, flowers, shrubs
- **Pest control and preventive inspections:** annual costs worth budgeting for
- **Emergency fund:** your HVAC, roof, water heater, and appliances will all eventually need replacing

The Home Inspection — Never Skip It

A home inspection is entirely separate from the appraisal. The appraiser works for the lender. The inspector works for you. A general home inspection costs $350-$800 and covers structural, electrical, plumbing, HVAC, roof, and more.

In Western North Carolina, also consider specialty inspections for: radon (elevated levels are common in WNC), septic systems, pests to check for wood destroying insects (WDI), well water quality and quantity, and mold if there are any signs of moisture intrusion.

Use inspection findings as negotiating leverage — request repairs, credits, or a price reduction. Never waive an inspection on a home where you cannot absorb potentially significant unknown repair costs.

> **NC Housing Finance Agency (NCHFA):**
> North Carolina offers excellent first-time buyer programs including the NC Home Advantage Mortgage and NC 1st Home Advantage Down Payment assistance (up to $15,000 in some programs). Ask your lender specifically about NCHFA programs — they can be combined with FHA, VA, USDA, and conventional loans.

Section 10 — Refinancing Your Mortgage

Refinancing means replacing your existing mortgage with a new one — ideally at a lower rate, shorter term, or to access equity. It involves going through a similar process as your original purchase and typically costs 2-5% of the loan amount in closing costs. Always evaluate whether the long-term savings justify the upfront cost.

Types of Refinances

RATE & TERM REFI	CASH-OUT REFI	STREAMLINE REFI
Lower Rate	**Access Equity**	**Less Docs**
Change your rate, term, or both without taking cash out. The most common type.	Borrow more than you owe and receive the difference in cash for renovations, debt payoff, or investments.	FHA/VA only. Simplified process with reduced documentation when staying within the same loan type.

When Does Refinancing Make Sense?

- Your new rate is at least 0.5-1% lower than your current rate
- You plan to stay in the home long enough to recoup closing costs (the break-even point)
- You want to remove FHA mortgage insurance by refinancing into conventional (once you have 20% equity)
- You want to shorten your term (30-year to 15-year) and can comfortably afford the higher payment
- You need to access equity for a major expense and it is more cost-effective than a HELOC
- You want to consolidate high-interest debt into a lower-rate mortgage — but proceed with caution

Cash-Out Caution:
Cash-out refinancing increases your loan balance. If home values decline, you could owe more than the home is worth. Additionally, you are converting unsecured debt (credit cards) to secured debt (your home). Always have a clear, strategic purpose for the funds before proceeding with a cash-out refinance.

Section 11 — Mistakes to Avoid

These are the most common — and most costly — mistakes mortgage applicants make. Many can be avoided entirely with a little advance knowledge and discipline during the process.

1. **Making Large Purchases Before or During the Process**
   A new car, furniture set, or any financed purchase before closing can disqualify you by increasing your DTI or depleting your reserves. Wait until after you have keys in hand.
2. **Changing Jobs Mid-Process**
   Changing jobs — even for a higher salary — can reset employment history requirements and delay or derail your loan. Especially dangerous: switching from salaried to self-employed status. Check with your loan officer before making any changes that may impact loan approval.
3. **Making Unexplained Large Deposits**
   Lenders must source all large deposits. Cash gifts, informal transfers, or unusual deposits must be fully documented. Large unexplained deposits raise fraud flags and can disqualify funds from being used toward closing.
4. **Not Shopping Multiple Lenders**
   Getting quotes from 3-5 lenders can save significant money over the life of your loan. Rate variations of 0.25-0.5% are common. Always compare Loan Estimates on the same day with identical loan parameters.
5. **Ignoring the Loan Estimate and Closing Disclosure**
   These legally required documents are designed to protect you. Read them carefully. Compare the Closing Disclosure to the original Loan Estimate — significant fee changes in certain categories are actually restricted by federal law.
6. **Being Dishonest on Your Application**
   Mortgage fraud is a federal crime. Never misrepresent income, assets, employment, or occupancy intent. Lenders verify everything through automated systems and third-party checks. If you are concerned about qualifying, have an honest conversation with your loan officer.
7. **Draining All Savings for the Down Payment**
   Putting every dollar into the down payment leaves you house-rich and cash-poor. You need reserves for closing costs, moving, immediate repairs, and emergencies. A slightly lower down payment with healthy reserves is often the smarter financial decision.

Section 12 — Mortgage Glossary

Quick reference for the most important terms you will encounter throughout the mortgage process.

Amortization
The scheduled repayment of a loan over the loan term through regular payments that cover both principal and interest. Early payments are mostly interest; later payments are mostly principal.

APR (Annual Percentage Rate)
The true annual cost of a loan, including interest plus lender fees and costs. Always use APR to compare offers from different lenders on an apples-to-apples basis.

Appraisal
A licensed appraiser's professional opinion of a property's fair market value, required by the lender to confirm the home is worth at least the purchase price.

Clear to Close (CTC)
The underwriter's final approval confirming all loan conditions have been satisfied and the loan is ready to fund and close.

Closing Disclosure (CD)
A standardized final loan document showing all actual costs and final terms. Must be provided to the borrower at least 3 business days before closing.

Conforming Loan
A loan that meets Fannie Mae/Freddie Mac size and guideline limits. The 2025 limit is $806,500 in most areas. Loans above this are Jumbo loans.

Debt-to-Income (DTI)
Total monthly debt payments divided by gross monthly income. The primary qualifying ratio reviewed by mortgage lenders.

Deed of Trust
The legal document that pledges the property as collateral for the mortgage loan. North Carolina uses a Deed of Trust rather than a traditional mortgage document.

Earnest Money
A deposit paid when a purchase offer is accepted, showing the buyer's good faith and seriousness. Typically 1-3% of the purchase price.

Equity
The difference between your home's current market value and the outstanding balance you owe. Grows as you make payments and as the home appreciates in value.

Escrow
An account held by the lender to collect and pay property taxes and homeowners insurance on your behalf from a portion of your monthly payment.

FHA Loan
A government-backed loan insured by the Federal Housing Administration. Easier qualifying requirements and lower minimum down payment than most conventional loans.

FICO Score
The credit scoring model most commonly used by mortgage lenders. Scores range from 300 (poor) to 850 (exceptional).

Jumbo Loan
A mortgage that exceeds the conforming loan limits set by Fannie Mae and Freddie Mac. Requires stronger credit, a larger down payment, and more cash reserves.

Loan Estimate (LE)
A standardized form provided within 3 business days of a loan application, detailing estimated loan terms, monthly payment, and all closing costs.

Loan-to-Value (LTV)
The loan amount divided by the property's appraised value, expressed as a percentage. Higher LTV means more risk for the lender and often results in a higher rate or PMI requirement.

MIP (Mortgage Insurance Premium)
The insurance paid on FHA loans. Includes a 1.75% upfront premium and an ongoing annual premium collected monthly.

PITI
Principal, Interest, Taxes, and Insurance — the four components of a total monthly housing payment used in qualifying calculations.

PMI (Private Mortgage Insurance)
Insurance required on conventional loans with less than 20% down payment. It protects the lender, not the borrower. Can be removed when LTV reaches 80%.

Points (Discount Points)
Prepaid interest paid at closing to permanently reduce the loan's interest rate. One point equals 1% of the loan amount.

Pre-Approval
A verified conditional commitment from a lender based on your actual credit pull and document review. Significantly more credible to sellers than pre-qualification.

Rate Lock
A lender's guarantee to hold your interest rate for a specified period while your loan is being processed and approved.

Recast

After you make a lump-sim payment toward your loan principal, your lender recalculates your monthly payments based on the new, lower balance without changing your interest rate or loan term.

Title Insurance
Protects against defects or claims against a property's title history. Lender's policy is required by the lender; owner's policy is separate and strongly recommended.

Underwriting
The lender's process of thoroughly verifying your financial information and the property details to determine whether to approve the mortgage loan.

USDA Loan
A government-backed loan for rural and eligible suburban areas. No down payment required; income and geographic eligibility limits apply.

VA Loan
A mortgage benefit for eligible veterans, active-duty service members, and surviving spouses. No down payment required and no monthly PMI ever.